

## **Montgomery County Employees Deferred Compensation Plan Statement of Policies & Objectives**

Montgomery County sponsors the Montgomery County Employees Deferred Compensation Plan (“Plan”) to provide eligible employees a voluntary method of retirement savings through pre-tax employee contributions to individual participant accounts.

The Montgomery County Code (“Code”) grants the Board of Investment Trustees (“the Board”) the exclusive authority to manage the assets of the Plan and to select investment options that the Board considers prudent subject to the Standard of Care set forth in Code Section 33-61C. The Code also provides that the Board must invest each participant's account in the Board designated investment options as directed by the participant. The Board adopts this Statement of Investment Policies as a guide to the exercise of its powers and duties in overseeing the investment program of the Plan.

### **Selection of Investment Options - Board**

The Plan’s participants have different investment objectives, time horizons and risk tolerances. To meet these varying investment needs, the Board will provide a diversified slate of investment options, each of which has a different set of risk and return characteristics as disclosed in their fund prospectus. From the options offered, participants can construct a portfolio designed for their retirement needs and risk tolerance.

The Board will select investment options that:

- Cover a risk and return spectrum of appropriate investment classes
- Are distinguishable and have distinct risk and return characteristics
- Are well diversified and professionally managed
- Charge fees that are reasonable for the asset class and investment style
- Maximize return within reasonable and prudent levels of risk

Recognizing that plan participants have different styles of investment, the Board developed the following investment tiers or approaches from which investment options are selected:

<b>Tier</b>	<b>Approach</b>	<b>Types of Investments Offered</b>
Tier 1	One decision funds	Lifecycle funds Stable Value fund
Tier 2	Index funds	Index funds across major asset classes
Tier 3	Actively managed funds	Funds within all major asset classes
Tier 4	Experienced investor	Self Directed Brokerage Account – limited to mutual fund offerings

The Board will offer a variety of options within each tier. Recognizing that some participants consider themselves experienced investors who want more variety, independence, and greater control in managing their deferred compensation portfolio, the Board will permit a participant to select any mutual fund, unless otherwise prohibited, through the Self-Directed Brokerage Account (SDBA). The Board will not monitor or evaluate the mutual funds available within the SDBA.

When selecting investment options, the Board may consider such factors as:

- The size, company staffing and organization, history, reputation, regulatory and legal compliance of the investment firm that manages each investment option.
- The experience of the individual portfolio manager.
- The investment objectives and structure, sector and security diversification.
- Adherence to investment strategy/style drift.
- Its historical risk and return measured against appropriate benchmarks and/or peer groups.
- Avoidance of duplication among investment options.
- The cost to participants, including any purchase or exchange fees, as well as its annual operating expenses.
- The ability to assist participants in meeting their individual investment goals when evaluated with the other available investment options.
- New product/investment opportunity.

Code Section 33-145(d) prohibits the Board from offering the following investment options:

- **Montgomery County Bonds:** Code Section 33-145(d)(5) prohibits investment in Montgomery County and Montgomery County-related bonds, notes, or debt instruments, unless those investments are held indirectly through a mutual fund.
- **Pooled Real Estate:** Code Section 33-145 (d)(3)(H) requires that real estate investments be made only in pooled vehicles in which no more than 10% of the pool is invested in real estate located in Montgomery County.

Attached Appendix A provides the current list and will be updated when changes are made. Changes to the investment options available will be made at the sole discretion of the Board, which shall document its decisions in the Board minutes, and communicate all changes to the participants on a timely basis.

### **Investment Program Oversight**

On a quarterly basis, the Board will review and evaluate the investment options offered and the performance of each investment option. (Board staff monitors the options daily and will notify the Board if circumstances warrant immediate action.) The Board will discuss taking action if an investment option fails to satisfy its performance criteria, or if the basis for selecting the investment option has changed, or if some other material change prompts concern. If such an event occurs that causes concern as to the appropriateness of continuing to offer that investment option, the Board may take one or more of the following actions:

- Establish a probationary period during which any area of concern will be assessed and, if necessary, corrected.
- Supplement the investment option with one or more alternative investment options for that category.
- Replace the investment option with one or more alternative investment options for that category.
- Eliminate the investment option.

Changes to the investment options available will be made at the sole discretion of the Board, which shall document its decisions in the Board minutes, and communicate all changes to the participants on a timely basis. If a fund is eliminated and a replacement fund is added, participants will be notified that if they fail to make an election to move their balance from the eliminated fund prior to the date of transfer, any assets in the eliminated fund will be transferred to the replacement fund.

### **Selection of Investment Options - Participant**

Participants may choose one or more fund option depending on individual investment objectives. Participants may change investment elections at any time (trade restrictions and fees on redemptions may be initiated by a particular option at any time). A participant's direction of investment remains in effect until otherwise changed by the participant. If a participant fails to designate an investment option, the participant's account balance will be invested in the default option, which is currently the applicable lifecycle fund based on the participant's date of birth and projected retirement date.

Participants are advised that they bear all investment risk and earnings on their participant account balances are determined solely by their investment elections. No person who is a fiduciary shall be liable for any loss resulting from the participant's exercise of control over his or her plan account.

Prior to opening an SDBA, participants will be required to sign an agreement acknowledging their understanding that he or she exercises exclusive control over his/her SDBA and that the Board does not select or monitor the mutual funds traded in the SDBA.

### **Third Party Administrator**

The Board, in conjunction with the Chief Administrative Officer, will select a Third Party Administrator (TPA) to perform functions related to administration of the Plan and recordkeeping of participant investment accounts, including: enrollment, exchanges, transfers, distributions, communication, performance and fee information, and periodic individual statements and benefit payments. The TPA will acknowledge that he/she is subject to the standard of care set forth in Code Section 33-61C.

The Board will conduct a review annually, or as necessary, of the TPA, to evaluate the expenses, the revenue sharing arrangements in place, and to determine if the TPA is meeting the administrative requirements as described above.

### **Investment Education Resources**

Participants will have educational resources available to make informed investment decisions based on their investment goals. The TPA will provide investment education and will include materials such as: quarterly statements and newsletters, onsite seminars, one-on-one counseling sessions, representative visits, and internet access services.

The Board has administrative procedures in place with the TPA to ensure that participants receive information on risk factors, fee structures and other issues related to investments. The TPA will provide these materials upon request.

## Appendix A – Current Investment Options

<b>Tier Classification</b>	<b>Investment Category</b>	<b>Fund Options*</b>
Tier 1	Lifecycle Funds	<ul style="list-style-type: none"> <li>♦ BGI LifePath Income</li> <li>♦ BGI LifePath 2000</li> <li>♦ BGI LifePath 2010</li> <li>♦ BGI LifePath 2020</li> <li>♦ BGI LifePath 2030</li> <li>♦ BGI LifePath 2040</li> </ul>
Tier 1	Stable Value Fund	<ul style="list-style-type: none"> <li>♦ SEI Stable Asset</li> </ul>
Tier 2	Index Funds	<ul style="list-style-type: none"> <li>♦ SSgA Passive Aggregate Strategy</li> <li>♦ SsgA S&amp;P 500</li> <li>♦ SsgA Mid/Small Index</li> <li>♦ SsgA Daily MSCI EAFE Index</li> </ul>
Tier 3	Bond/Income Funds	<ul style="list-style-type: none"> <li>♦ Hartford Bond</li> <li>♦ Pimco High Yield</li> <li>♦ Goldman Sachs Short Duration Government</li> <li>♦ Fidelity Inflation-Protected Bond</li> </ul>
Tier 3	Real Estate Equity Fund	<ul style="list-style-type: none"> <li>♦ SsgA Tuckerman REIT</li> </ul>
Tier 3	Stock Funds	<ul style="list-style-type: none"> <li>♦ American Funds: Growth Fund of America</li> <li>♦ Hartford Dividend &amp; Growth</li> <li>♦ Smith Barney Appreciation</li> <li>♦ Hartford Capital Appreciation</li> <li>♦ Fidelity Low Priced Stock</li> <li>♦ Fidelity Small Cap Stock</li> <li>♦ Salomon Brothers Small Cap Growth</li> </ul>
Tier 3	International/Global Stock Funds	<ul style="list-style-type: none"> <li>♦ Fidelity Diversified International</li> <li>♦ Oppenheimer Global</li> </ul>
Tier 4	Self Directed Brokerage Acct.	<ul style="list-style-type: none"> <li>♦ State Street Global Advisors</li> </ul>

\*Investment options as of June 30, 2006